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Siegel v. Chicken Delight, Inc.: What's in a Name

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SIEGEL v. CHICKEN DELIGHT, INC.: WHAT'S IN A NAME?

In *Siegel v. Chicken Delight, Inc.* the Court of Appeals for the Ninth Circuit recently affirmed a district court finding that the franchise agreements of Chicken Delight which had required franchisees to purchase certain items exclusively from Chicken Delight constituted an illegal "tie-in" arrangement in violation of the Sherman Act antitrust provisions.[1] The decision will have significant ramifications in the franchise industry—a major force in the American economy.

The purchase restrictions contained in Chicken Delight franchise agreements could arguably have been reviewed for possible antitrust violations under either of two differing bodies of antitrust law: that relating to tying arrangements, or that relating to exclusive dealing and requirements contracts. While both the tying and exclusive dealing doctrines have as their goals the freedom of economic competition from suppression, the former requires practically no direct showing of actual or impending economic effects of the trade practice in question. This note will examine the path taken by the court in determining that the stricter law of tie-ins was the proper law to apply. In reaching its determination on the applicable law, the *Chicken Delight* court set up important and novel restrictions on what a trademark registrant could do with his mark. These restrictions also require some review, both for their relation to the law of trademarks as it has existed and for the impact which such restrictions may have on the franchise industry. Finally, this note will review the manner in which the law of tie-ins was applied. That law has been in a state of some uncertainty since 1969, yet the *Chicken Delight* court perceived "clear guidelines" and followed them to its conclusion. This note is primarily concerned with whether the court in *Chicken Delight*, on its determination of the applicable law, on its application of that law, and on its view of the nature of trademark-licensing and the franchise industry, was indeed following "clear guidelines," or whether it was establishing, granting clarity to, and then following its own guidelines.

The Tie-In Doctrine

Whenever a business organization sells a product desired by the

1. 448 F.2d 43 (9th Cir. 1971), *cert. denied,* 40 U.S.L.W. 3415 (Feb. 28, 1972). The Ninth Circuit affirmed and reversed in part the district court's decision found at 311 F. Supp. 847 (N.D. Cal. 1970).

public, it possesses a certain amount of market leverage.[2] As the seller's control in the market for that product increases, whether through monoply, market dominance, patent, copyright, or simply the superiority of his product, this leverage increases.[3] The most noticeable result of such leverage may be a raise in price by the seller.[4] Another result may be an attempt by the seller to extend his favorable market position into a different market by means of a "tie-in" or "tying arrangement."[5] Under such an arrangement the buyer, in order to purchase the desired or "tying" item, is forced by the seller to purchase a less desired or "tied" item. The seller ties the two products in order to carry over the strength he possesses in one market into another separate and distinct market.[6] This practice has been subject to attack under three federal antitrust statutes.

Section 1 of the Sherman Act declares unlawful "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations."[7] Tying arrangements have been specifically held to fall within this proscription.[8] Such arrangements may also be illegal under section 3 of the Clayton Act, which provides in part:

> It shall be unlawful for any person engaged in commerce . . . to . . . make a . . . contract for the sale of . . . commodities . . . on the condition . . . that the . . . purchaser thereof shall not use or deal in the . . . commodities of a competitor . . . of the . . . seller, where the effect . . . may be to substantially lessen competition.[9]

The Federal Trade Commission is also empowered to take action under section 5 of the Federal Trade Commission Act to eliminate tying arrangements where those arrangements are deemed to be "unfair methods of competition."[10]

The Supreme Court has developed doctrines under the above

2. *See* Northern Pacific Ry. v. United States, 356 U.S. 1, 7 (1958).
3. *Id. See also* Fortner Enterprises v. U.S. Steel, 394 U.S. 495, 502-04 (1969).
4. 394 U.S. at 503.
5. *See, e.g.*, United States v. Loew's Inc., 371 U.S. 38, 45-47 (1962).
6. *Id.*
7. 15 U.S.C. § 1 (1970).
8. *See, e.g.*, Northern Pac. Ry. v. United States, 356 U.S. 1 (1958) (defendants tied the desired purchase of land to the required use of their railroad services).
9. 15 U.S.C. § 14 (1970). *See, e.g.*, International Salt Co. v. United States, 332 U.S. 392 (1947) (defendants tied the desired lease of their patented salt dispensing machines to the purchase of their salt products).
10. 15 U.S.C. § 45(a)(1) (1970). *See, e.g.*, FTC v. Texaco, 393 U.S. 223 (1968), in which respondents tied their desired distributorships to the required purchase from another company of tires, batteries, and accessories. Texaco then received a commission. The case is clearly distinguishable from a classic tie-in arrangement.

described statutes to consistently defeat tying arrangements,[11] and such arrangements have been condemned as serving "hardly any purpose beyond the suppression of competition."[12] Generally speaking, the economic evils presented by the traditional tie-in are the extension of economic power from one market to another, and the resultant restraint of trade in the "tied" market.[13] Competition in the tied market is restrained in two ways: a buyer is prevented from exercising free denied access to certain consumers.[14] Any contract for the sale of goods, services, or commodities effectively "restrains trade" because the buyer has limited his choice of suppliers and is therefore no longer a potential consumer of other suppliers. Therefore, for purposes of finding an illegal tie-in, market extension and its anticompetitive effects are inseparable considerations. Tying arrangement proscriptions will only be employed to cure restraints of trade when the threatened restraints are caused by attempts at market extension.[15]

Elements of an Illegal Tie-In

By definition the most basic prerequisite of an illegal tie-in is the presence of two distinct products with two distinct markets.[16] Without two products, no extrinsic leverage can be applied, and there can be no extension of power from one market to another with a concomitant restraint of trade in the second market.[17] A determination of whether one or more products exist is not always as straightforward as might be imagined. While a left shoe is distinct from a right shoe and a car is distinct from its tires, they are customarily sold together. No court has ever suggested that tie-in principles should be invoked to require separate sales of these items. Under certain circumstances, however, there are single unit sales which involve conceptually divisible and separate items. In such cases a court must

11. *See, e.g.*, United States v. Loew's, Inc., 371 U.S. 38 (1962); Northern Pac. Ry. v. United States, 356 U.S. 1 (1958); International Salt v. United States, 332 U.S. 392 (1947); IBM Corp. v. United States, 298 U.S. 131 (1936).

12. Standard Oil Co. v. United States, 337 U.S. 293, 305-06 (1949).

13. In Times-Picayune Publ. Co. v. United States, 345 U.S. 594, 611 (1953) the Court stated: "The essence of illegality in tying agreements is the wielding of economic leverage; a seller exploits his dominant position in one market to expand his empire into the next."

14. United States v. Loew's, Inc., 371 U.S. 38, 44-45 (1962).

15. *See* Times-Picayune Publ. Co. v. United States, 345 U.S. 594, 614 (1953).

16. *See, e.g.*, *id.*, in which advertising space in morning and evening newspapers under the same ownership were viewed as a single product. The Court commented: "In short, neither the rationale nor the doctrines evolved by the 'tying' cases can dispose of the Publishing Company's arrangements challenged here."

17. When there are not two products for tying purposes, there still may be an illegal restraint of trade. The applicability of exclusive dealing and requirements contracts doctrines to the Chicken Delight agreements is discussed in the text accompanying notes 92-100 *infra*.

determine if the underlying rationale and purpose of the tie-in doctrine require a finding that two individual products are involved in the sale and are illegally tied together as a unit in derogation of free competition.[18]

With certain minor exceptions,[19] a tying arrangement, if illegal at all, will be found by the court to be illegal per se. This rule of per se illegality has been developed[20] to lessen the burden on the plaintiff bringing suit under the Sherman Act of directly showing an unreasonable restraint of trade, or if suit is brought under the Clayton Act, of directly showing a substantial lessening of competition. If a seller possesses a degree of market power in the tying market, and if a "not insubstantial" volume of commerce in the tied market is affected,[21] then the court will hold a tying arrangement illegal per se.[22]

Since the "wielding of economic power" is a basic feature of an illegal tie-in, the nature of a seller's position in the tying market has always been of great significance. Clearly, if a seller has little or no power in his own market, it is unlikely that he can muster sufficient leverage by virtue of that power to restrain competition in another market. Thus, for there to be an illegal tie-in, there is a requirement that the seller possess a degree of market power in the tying market.

The quantum of market power necessary for the court to find liability under the tie-in doctrine has not remained constant. When the Supreme Court first developed the doctrine of per se illegality, the seller apparently had to have monopolistic power in the tying market.[23] Subsequent cases, however, have shown that a tying arrangement can be illegal per se where the seller's position is neither mono-

18. "[T]he only safe conclusion is that each case will be decided on an ad hoc basis." Cooper, Bower, & Belcher, *Product Distribution* in ANTITRUST ADVISER § 3.15 at 90 (C. Hills ed. 1971).

19. Illegality may, under unusual circumstances, be established without resort to the per se rule. However, this requires more elaborate proof. See note 53 & accompanying text *infra*.

20. As applied to tying arrangements, the doctrine of per se illegality began with International Salt Co. v. United States, 332 U.S. 392, 396 (1947).

21. Times-Picayune Publ. Co. v. United States, 345 U.S. 594, 608-09 (1953), indicates that per se illegality under the Sherman Act requires a showing of both elements, while per se illegality under the Clayton Act requires either market power *or* a showing of a "substantial" volume of business in the tied market. Whether the "and/or" problem is critical or whether "not insubstantial" is far different from "substantial" is not clear. This distinction has been criticized. *See, e.g.*, Handler, *Antitrust: 1969*, 55 CORNELL L. REV. 161, 162 (1970); McCarthy, *Trademark Franchising and Antitrust: The Trouble with Tie-ins*, 58 CALIF. L. REV. 1085, 1097 n.77 (1970).

22. International Salt Co. v. United States, 332 U.S. 392, 396 (1947).

23. Defendants in *International Salt* tied the lease of their patented salt dispensers to the purchase of their salt products. The patent gave the defendants a "monopolistic" position upon which the Court laid emphasis. *Id.* at 395-96.

polistic, nor even "dominant."[24] The present standard of the amount of market power necessary to lead to per se illegality is "sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product."[25] Thus, the standard for a crucial element of an illegal tying arrangement, market power, is enmeshed with the very economic evil which the doctrine seeks to remove. When the seller possesses sufficient power in one market so that he is able to restrain competition by means of market extension in another market, the requisite market power exists.

The inherent circuity in this "test" has been somewhat eliminated by the addition of more objective tests which allow the court to infer sufficient power in the tying market "from the tying product's desirability to consumers or from uniqueness in its attributes."[26] Moreover, where a tying product is patented or copyrighted, sufficient economic power is presumed to exist. This presumption was first recognized in *United States v. Loew's, Inc.*[27] In that case Loew's was prohibited from offering its high-quality copyrighted movies to television stations only on the condition that the stations accept its lower-quality movies. Loew's market power was shown not by its relationship to its competitors, but by the exclusivity of its copyrights.[28] The fact that a tying arrangement exists is itself evidence, though not conclusive, that sufficient market power exists.[29]

In addition to the requirement of sufficient market power in the tying market by the seller, per se illegality also requires that a "not insubstantial" amount of commerce in the tied market be affected by the tying arrangement.[30] This quantitative requirement as to the effect of the tying arrangement in the tied market is not difficult to meet. The standard is not related to a percentage of total business done in the tied market but, instead, simply requires that the raw dollar total of business in the tied market affected by the tying arrangement

24. A "dominant" market position was the apparent requirement applied in Times-Picayune Publ. Co. v. United States, 345 U.S. 594, 611 (1953). The requirement for such extensive market power is no longer existent. See notes 25-26 *infra* and text accompanying notes 25-29 *infra.*

25. Northern Pac. Ry. v. United States, 356 U.S. 1, 6 (1958).

26. United States v. Loew's, Inc., 371 U.S. 38, 45 (1962). Thus Loew's arrangements to provide certain desired films only on condition that less desirable films were also taken was an illegal tie-in. Loew's position in the quality film market was neither monopolistic nor dominant, but the copyrighted films were attractive to consumers and unique.

27. *Id.* at 45, 49-50.

28. *Chicken Delight* has attempted to expand this patent/copyright presumption to trademarks. See text accompanying notes 106-09 *infra.*

29. Northern Pac. Ry. v. United States, 356 U.S. 1, 7-8 (1958).

30. *Id.* at 6.

cannot be described as insubstantial. Thus, one defendant doing only $60,800 in business in a multi-million dollar tied market was found to have met the "not insubstantial" standard.[31]

To briefly summarize then, a tying arrangement will almost always be held to be illegal when the seller has sufficient power in the tying market and[32] does more than insubstantial business in the tied market. Once these two elements have been established, only a very limited set of justifications will exempt the seller from liability.

Defenses

Two recognized defenses to what would otherwise be an illegal tie-in are the so-called "new business" justification, and the "quality control" or "protection of goodwill" justification. The Supreme Court first recognized the new business justification in *Brown Shoe Co. v. United States*,[33] where it stated:

> [U]nless the tying device is employed by a small company in an attempt to break into a market . . . the use of a tying device can rarely be harmonized with the strictures of the antitrust laws . . . .[34]

For example, the "new business" justification was recognized in a situation involving a new enterprise in a highly sophisticated electronics business. There, the court held that the newness of the business and the scarcity of technology justified the tying arrangement which involved the sale, as a unit, of various electronic components together with a service contract.[35] It is not clear at this time how far the courts will be willing to allow the "new business" justification to extend. It can be argued that the buyer's position as a new business may be as relevant to the underlying rationale of the "new business" exception as is the seller's. Under such a rationale, excuse might be found for a tying arrangement which facilitates entry of a new business into a competitive market of other buyers.[36]

Some employers of tying arrangements have escaped liability by showing that the tie-in was necessary to control the quality and preserve the goodwill of the tying item.[37] This justification for a tying

31. United States v. Loew's, Inc., 371 U.S. 38 (1962).

32. See note 21 *supra*.

33. 370 U.S. 294 (1962).

34. *Id.* at 330.

35. United States v. Jerrold Electronics Corp., 187 F. Supp. 545, 557, 560-61 (E.D. Pa. 1960), *aff'd per curiam* 365 U.S. 567 (1961). The district court held that this justification expired as relevant technology became available.

36. See text accompanying notes 123-24 *infra*.

37. *See* Susser v. Carvel Corp., 332 F.2d 505, 517 (2d Cir. 1964), *cert. denied*, 381 U.S. 125 (1965) (defendants tied their trademark license to their ice cream mix to maintain quality); Dehydrating Process Co. v. A.O. Smith Corp., 292 F.2d 653

arrangement may be more notable for the rather lame invocations of it than for its history of acceptance by the courts. In the cases where this justification for the tying arrangement was advanced, the court appears more often to have devoted its efforts to denying the inherent superiority of one company's rock salt[38] or another company's computer cards,[39] for example, than to considering the alleged need to control quality by means of a tie-in.

Fortner Enterprises, Inc. v. United States Steel Corp.

The most recent, and perhaps most confusing, tie-in decision of the Supreme Court is *Fortner Enterprises, Inc. v. United States Steel Corp.*[40] In this case U. S. Steel, through its wholly owned subsidiary, U. S. Steel Homes Credit Corp., agreed to give Fortner Enterprises 100 percent financing at 6 percent interest on a venture which involved the purchase of land and the installation of prefabricated houses. Fortner agreed to purchase the houses from U. S. Steel, who took back a mortgage on the land as security for the loan. Fortner was unable to meet the loan payments and U. S. Steel began foreclosure proceedings. Shortly after the institution of foreclosure proceedings Fortner sued U. S. Steel, alleging that they had imposed an illegal tying arrangement on him, forcing him to buy their houses in order to receive the credit financing when other houses in the market were available for as much as $400 less. U. S. Steel moved for a summary judgment, arguing that Fortner had failed to raise any triable issue of fact.[41] The trial court granted the motion, on the basis that Fortner had not shown that U. S. Steel had sufficient market power over the tying product, credit, to impose a tie-in which would be illegal per se.[42] The decision was affirmed by the Sixth Circuit Court of Appeals without opinion.[43] The Supreme Court, by a 5-4 decision and over vigorous dissents, reversed.[44] Justice Black, writing for the majority, apparently relied on three grounds for reversing the lower court's decision.

(1st Cir.), *cert. denied,* 368 U.S. 931 (1961) (defendants tied the sale of patented unloading machines to the sale of patented silos, after receiving complaints about the unloaders when used with other silos).

38. International Salt Co. v. United States, 332 U.S. 392, 397-98 (1947).

39. IBM Co. v. United States, 298 U.S. 131, 134 (1936).

40. 394 U.S. 495 (1969).

41. *See* FED. R. CIV. P. 56.

42. 293 F. Supp. 762 (W.D. Ky. 1966).

43. 404 F.2d 936 (6th Cir. 1968).

44. Justice White, joined by Justice Harlan, felt that *Fortner* could meet no market power test, and had offered no proof on the issue at trial. 394 U.S. at 510-20. Justice Fortas, joined by Justice Stewart, argued that no tie-in existed at all. *Id.* at 520-25.

First, the granting of summary judgment for the defendants was found erroneous on the basis that the lower court apparently utilized an incorrect standard for market power sufficient to invoke the rule of per se illegality.[45] Justice Black made clear that neither monopolistic power nor market dominance was necessary, inferring that the lower court had found them to be so. This statement of what is not necessary to constitute sufficient market power cannot be said to make *Fortner* a departure from earlier tie-in cases. Loew's had made the same determination seven years earlier.[46] What may have been a departure from prior cases, and what has been responsible for some confusion in cases decided subsequently was the following dictum in *Fortner:*

> [T]he proper focus of concern is whether the seller has the power to raise prices, or impose other burdensome terms such as a tie-in, with respect to any appreciable number of buyers within the market.[47]

It is doubtful that Justice Black meant to imply that the mere presence of a tie-in between the seller and "an appreciable number of buyers" is conclusive on the issue of the market power of the seller. In the first place, *Fortner* involved only one buyer, and secondly, such an interpretation would, for most cases, eliminate the per se rule as it had previously existed, and make all tie-ins illegal.[48] Such an outcome would be an extraordinary deviation from the course of prior Sherman and Clayton Act tie-in cases.[49] Under prior cases,

45. *Id.* at 502-03. It was unclear, however, that the district court granted judgment on the basis of no perceived monopoly or dominance. The district court found that no evidence had been offered to demonstrate that U.S. Steel was powerful enough in the tying market to pressure buyers into taking the tied product. 293 F. Supp. 762, 768 (1966). This seems indistinguishable from the "sufficient power to restrain" test of *Northern Pacific* which *Fortner* reiterated. 394 U.S. at 498-99. The lower court did not make clear just what test it was applying, however.

46. United States v. Loew's, Inc., 371 U.S. 38 (1962).

47. 394 U.S. at 504.

48. To establish the dictum as law would be tantamount to establishing a per se rule on market power, which is a necessary item in establishing the per se rule of illegality. A seller who customarily used tying arrangements would have an "appreciable number of buyers," and therefore, he would presumptively have so much market power that unreasonable restraints of trade or a substantial lessening of competition—those effects which the per se rule of illegality established—would be inevitable.

49. No case has found that demonstration of the existence of tie-ins was in itself demonstration of the existence of market power. *See* United States v. Loew's, Inc., 371 U.S. 38, 45 (1962) (fact that the tying items were copyrighted demonstrated the seller's market power); Northern Pac. Ry. v. United States, 356 U.S. 1, 7 (1958) (defendant's market power over the tying item, land, was shown by the extensiveness and desirability of its land holdings); International Salt Co. v. United States, 332 U.S. 392, 395-96 (1947) (power wielded by defendants was derived from a "limited monopoly" over the tying item, a patented machine).

tie-ins were illegal only because they were unreasonable restraints of trade or substantially lessened competition.[50] The per se rule was developed to avoid the need for the plaintiff to show these general market effects, provided, however, that he was able to establish certain elements which made such market effects inevitable—significant market power in the tying product, and a not insubstantial amount of commerce affected in the tied market. If the mere presence of a tie-in is deemed to be determinative of market power, then illegality is established without the necessity for a showing of illegal effect or the necessary cause of that effect. Such a result would condemn all tying arrangements on the basis of form, without regard to substance—the harm which the antitrust laws sought to end. It does not appear reasonable to assume that the five justices on the majority intended to so change the rule of per se illegality without a more conclusive statement than appears in *Fortner*.

A more reasonable interpretation would be that the market power requirement of per se illegality is still to be utilized to establish the coercive element of a tie-in. As Justice Black wrote in *Northern Pacific*:

> Of course where the seller has no control or dominance over the tying product so that it does not represent an effectual weapon to pressure buyers into taking the tied item any restraint of trade attributable to such tying arrangements would obviously be insignificant at most.[51]

Thus, the mere presence of a tie-in with an appreciable number of buyers should not be considered determinative of illegality; instead, the fact that a tie-in exists should still be given the same weight as Black ascribed to it in *Northern Pacific*, that is, "compelling evidence of the defendant's great power, at least where, as here, no other explanation has been offered for the existence of these restraints."[52]

A second ground for the reversal of the summary judgment in *Fortner* was the fact that the plaintiff could have possibly prevailed even though he was unable to establish the applicability of the per se rule. In other words, the plaintiff could have prevailed by showing a violation of the general proscriptions of the Sherman or Clayton Act on the part of the defendant.[53] The Court concluded, therefore, that mere failure to invoke the rule of per se illegality did not lead

50. *Compare* Northern Pac. Ry. v. United States, 356 U.S. 1, 5 (1958) *with* Times-Picayune Publ. Co. v. United States, 345 U.S. 594, 611 (1953) *and* International Salt Co. v. United States, 332 U.S. 392, 396 (1947).

51. Northern Pac. Ry. v. United States, 356 U.S. 1, 6-7 (1958).

52. *Id.* at 7-8.

53. That is, a Sherman Act plaintiff could demonstrate that a tie-in resulted in an unreasonable restraint of trade, or a Clayton Act plaintiff could show that the result was a substantial lessening of competition. The standards of legality would

to an absence of triable issues and should not lead to summary judgment on this basis alone.[54] Finally, the *Fortner* court rested its decision on the general rule that courts should avoid summary judgment in "complex antitrust litigations,"[55] unless, of course, there are clearly no triable issues.

In summary, *Fortner* appears to have been a rather narrow holding. The facts in the litigation presented triable issues, and summary judgment was therefore held to be erroneous. The decision should not be construed as drastically changing existing standards for per se illegality; instead, the court appears to have merely reiterated three established general principles: (1) market power does not require either monoply or dominance, but instead enough power to coerce; (2) a tie-in may prove to be illegal without application of the per se rule; (3) summary judgment is generally to be avoided in complex antitrust litigation.

While the broad language of *Fortner* has led some to construe it as significantly altering the law of tie-ins,[56] the mere fact that the Court utilized the established tie-in principles discussed above to save so questionable a cause of action is what has given *Fortner* the appearance of a trail-blazing decision. Fortner Enterprises was a corporate shell with a $16,000 deficit when it went to U. S. Steel seeking financing for a subdivision. It is doubtful whether the project would have even been undertaken without the help of U. S. Steel, and it was also clearly established that U. S. Steel does not treat 100 percent financing at 6 percent interest as a separate product. In view of these facts, it is difficult to see just how Fortner was harmed by this arrangement with U. S. Steel, and more importantly, how competition was harmed. The primary significance of the *Fortner* decision may well be that courts are directed to insure that antitrust litigants are allowed to reach a jury.

Siegel v. Chicken Delight, Inc.

Chicken Delight became a pioneer in the fast food franchise business when it commenced operation in 1952. Its method of opera-

be those which existed prior to *International Salt*. *See, e.g.*, IBM Co. v. United States, 298 U.S. 131, 135-36 (1935).

54. 394 U.S. at 499-500.

55. *Id.* at 500. In Poller v. Columbia Broadcasting, 368 U.S. 464, 473 (1962), the Court stated: "We believe that summary procedures should be used sparingly in complex antitrust litigation where motive and intent play leading roles. . . . Trial by affidavit is no substitute for trial by jury which so long has been the hallmark of 'even handed justice.' "

56. *See generally* Advanced Business Systems & Supply Co. v. SCM Corp., 415 F.2d 55, 62 (4th Cir. 1969), *cert. denied*, 397 U.S. 920 (1970). *See also* McCarthy, *supra* note 14, at 1103-05.

tion was somewhat unusual in that, unlike most other franchisors, it charged no initial fee nor any continuing royalty for the right of franchisees to operate as a Chicken Delight outlet. Instead, the only *quid pro quo* in the franchise agreements was the obligation of the franchisees to purchase certain cooking equipment, dip and spice mix, and certain trademark-bearing paper products exclusively from the franchisor.[57] Chicken Delight never marketed these products separately from its franchises.

In a class action representing approximately 700 franchisees, the Chicken Delight arrangement was attacked as a tie-in—illegal under section 1 of the Sherman Act.[58] The alleged tying product was the Chicken Delight trademark license; the tied items were said to be the products which franchisees were required to purchase from Chicken Delight. The district court determined as matters of law that a tie-in existed;[59] that the requisite market power in the tying market was present;[60] that sufficient commerce was affected in the tied markets[61] to invoke the per se rule of illegality; and that with respect to the paper products, no justifications existed for the tie-in.[62] A verdict was directed for plaintiffs on all these issues.[63] The only questions to reach the jury were whether purchase of the equipment or the spice mix could be justified as quality control devices. By special verdicts, the jury determined that they could not.[64] The district court did not determine the extent of damages, but it did find, again as a matter of law, that damages existed.[65] The measure of damages was held to be the amount of the price for the tied items in excess of their fair market value. The court rejected Chicken Delight's contention that if damages existed they must be offset by the reasonable value of the trademark license. Since Chicken Delight purported to charge

57. The goods were priced apparently in excess of market value, but the prices were specified in the agreement. Any increase in price was conditioned upon increases in cost to the franchisor. A franchise agreement is set out in Petitioner's Brief for Certiorari, App. C, Chicken Delight, Inc. v. Siegel, 40 U.S.L.W. 3415 (U.S. Feb. 28, 1972).

58. The case was not tried under the Clayton Act because of its restriction to the tying of "commodities." The action was held maintainable as a class action under Fed. R. Civ. P. 23(b)(3), 271 F. Supp. 722 (N.D. Cal. 1967), but an additional charge of price fixing was held to be inappropriate to the class action. Chicken Delight v. Harris, 412 F.2d 830 (9th Cir. 1969).

59. Siegel v. Chicken Delight, Inc., 311 F. Supp. 847, 849 (N.D. Cal. 1970), *aff'd* 448 F.2d 43 (9th Cir. 1971).

60. *Id.* at 849-50.

61. *Id.* at 850.

62. *Id.* at 851-52.

63. *Id.* at 852.

64. *Id.* at 853.

65. *Id.* at 852.

no fees or royalties for use of the mark, the trial court held that it would not "restructure" the contract by allowing an offset.[66]

Upon appeal to the Ninth Circuit Court of Appeals, the lower court was affirmed except for the issue of damages.[67] On that issue the appellate court found that the fact of damages had been neither established nor controverted in the lower court. Actual damages would exist, said the court, only where the reasonable value of the tying and tied products together was less than the overcharges on the tied items.[68] The court thus accepted Chicken Delight's position on the setoff issue, but rejected the contention that since franchisees had accepted the overcharges on the tied items as the cost of the tying items, they were undamaged as a matter of law.[69]

The balance of this note will review the reasoning of the Ninth Circuit on the issues of the applicability of the law of tie-ins and the questions of market power and justifications, and will also examine alternatives which might have been available as the basis for decision. This discussion will also consider the question as to whether the decision is promotive of competition.

The Two Product Requirement

As has been noted earlier, the most basic requirement of any tie-in is the existence of two products—the tying product, and the tied product.[70] The tying product is desired by the buyer, and this gives the seller a degree of power in this market. The tied product is not necessarily as desired, but the seller requires its purchase as a condition for providing the tying product to the buyer. The motive behind the tying arrangement is the translation of power in one market by the seller, to power in another market, and the resulting economic evil is the achievement of power in the second market gained only through coercive application of power in the first. It is possible that more than one product may be involved in a package sale which does not constitute a tie-in. This situation would arise where no single product could be said to be the tying item, for it lacks the desirability which would make it a coervice tool. Thus, with no dominant product among the several products offered, there is no coercion, no market extension, and no tie-in.[71] There still may be a violation

66. *See id.*

67. Siegel v. Chicken Delight, Inc., 448 F.2d 43, 53 (9th Cir. 1971).

68. *Id.*

69. *Id.* at 52-53.

70. See text accompanying notes 16-18 *supra.*

71. Times-Picayune Publ. Co. v. United States, 345 U.S. 594, 614 (1953). *See also* Standard Oil Co. v. United States, 337 U.S. 293, 305-06 n.8 (1948). In *Standard Oil* defendants required contracting service stations to purchase all their

of the rules proscribing certain exclusive dealing arrangements, however.[72]

Two prerequisite findings existed, then, before Chicken Delight could be said to be in violation of tie-in law: (1) that more than one product existed; and (2) that among the separate products, there was one dominant tying product whose power the seller wielded to extend his position into other markets. Since *Chicken Delight* is the only case in which tie-in liability has been found where the alleged tying item was a trademark license, the nature of a trademark and its capacity to serve as a tying item merit close scrutiny.

The Lanham Trade Mark Act of 1946[73] defines a trademark as "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."[74] Obviously, this definition does not lend itself readily to a conclusion that a trademark is an item separate and distinct from that which it describes. Furthermore, an early Supreme Court decision implies a certain unity in the trademark and that which it identifies:

> There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed.[75]

Only one decision, *Susser v. Carvel Corp.*,[76] has directly held that a trademark license can be considered as an item sufficiently separate from the products which it identifies to be susceptible of characterization as a tying item. But in *Susser*, which involved the licensing of a trademark on the condition that the franchisee buy certain supplies from the franchisor, a majority of the court found no tie-in liability. The court held that no sufficient market power in the market for the tying item was shown, and that the buying restric-

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gasoline, tires, tubes, and accessories exclusively from Standard Oil. Though the Court "noted in passing" in its footnote number 8 that "as a matter of classification" the tires, tubes, and accessories might be viewed as "tied products," the opinion was devoted to explaining and applying a standard of legality for exclusive dealing arrangements which was different from that for tie-ins. The central element distinguishing tie-ins from exclusive dealing arrangements did not appear to be that the former merely involved two products while the latter involved only one. Rather, the crucial distinction was that tie-ins were almost always motivated only by a desire to extend power from one market to another, using the dominant desired product to "suppress competition" in the markets for other products, while exclusive dealing arrangements could serve legitimate purposes.

72. See text accompanying notes 92-100 *infra*.

73. 15 U.S.C. §§ 1051-72, 1091-96, 1111-21, 1123-27 (1970).

74. *Id.* § 1127.

75. United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918).

76. 332 F.2d 505, 513, 519 (2d Cir. 1964).

tions imposed by the franchisor were justifiable as quality control devices to maintain a uniform product—soft ice cream.

The same franchise agreement was again examined by the Federal Trade Commission after the decision in *Susser*,[77] and a quite different conclusion was reached by the commission on the characterization of a trademark as a tying item:

> [The] franchise agreements cannot be regarded as tie-in arrangements because the trademark license conceptually cannot constitute a "tying" product, and, even if it could, it could never be regarded as a separable "product" apart from the mix and commissary items to which it is attached within the meaning of the typical tie-in arrangement.[78]

The appellate court in *Chicken Delight* viewed the trademark, as it is used in the fast food industry, as constituting merely a representation of quality. The court concluded that the marketing of license and goods could only be *justified* where there is no less restrictive means available to maintain the quality represented by the trademark.[79] The court thus took the position that a trademark, for tie-in purposes, was always separable from other items in a franchise system, and where the licensing agreement required purchase of certain items, a tie-in was present. Such a conclusion is inconsistent with the development of the law of trademarks.

Historically, a trademark represented the source of a product sold under that mark. This source theory was so firmly established that it was said that a trademark could neither be assigned nor licensed "except as incidental to a transfer of the business or property in connection with which it has been used."[80] In other words, a trademark could never be marketed separately. This restriction was removed by the Lanham Act, which provided that one company's trademark could be used by a "related company" so long as "such mark is not used in such manner as to deceive the public."[81] With this right to license a trademark went the affirmative duty on the part of the licensor to control the licensee "in respect to the nature and the quality of the goods or services in connection with which the mark is used."[82] Failure to exercise such control could amount to abandonment of the trademark.[83]

77. Carvel Corp., [1965-1967 Transfer Binder] TRADE REG. REP. ¶ 17,298 at 22,422 (1965).

78. *Id.* at 22,425.

79. 448 F.2d 43, 49, 50 (1971).

80. Macmahan Pharmical Co. v. Denver Chem. Mfg. Co., 113 F. 468, 474-75 (8th Cir. 1901).

81. 15 U.S.C. § 1055 (1970).

82. 15 U.S.C. § 1127 (1970).

83. 15 U.S.C. §§ 1064, 1115(b)(3) (1970).

A trademark, therefore, may or may not represent the source of the product sold under the mark, but it always must represent the quality of the product. Clearly there is no requirement that a trademark can represent *only* quality. More importantly, even though Congress opened the door for trademark licensing, it did not make a trademark a product rather than a label, nor did it put forth prohibitions against coupling the license with purchase of other items. This cannot be said to be an oversight, for the same act expressly recognized violation of the antitrust laws as a defense to an action for trademark infringement.[84] Had Congress wished to make illegal the marketing of a trademark license together with related but conceptually distinct products, it could have done so. It did not. Indeed, as a practical matter, Congress, by putting a strict burden of quality control on any trademark licensor, *required* the licensor to market the trademark together with whatever products were essential for maintenace of a uniform standard of quality. Congress made no prohibitions where such joint sales are a convenient, though not essential means of quality control. In making such a prohibition, the court in *Chicken Delight* has no support from federal trademark legislation.

In its conclusion that a trademark license must be marketed apart from other items in order to avoid possible liability as a tie-in, the *Chicken Delight* court apparently found as significant the fact that other fast-food franchisors did market their licenses separately.[85] Yet, this fact alone is clearly not conclusive of a tying arrangement. As was stated in *Jerrold Electronics v. United States*:

> [A] manufacturer cannot be forced to deal in the minimum product that could be sold or is usually sold. On the other hand, it is equally clear that one cannot circumvent the antitrust laws simply by claiming that he is selling a single product. The facts must be examined to ascertain whether or not there are legitimate reasons for selling normally separate items in a combined form to dispel any inferences that it is really a disguised tie-in.[86]

The question in *Chicken Delight*, then, should not have been whether the tying of one product, the trademark license, to other goods was justified, but whether what was marketed was in fact a single system or separate items.[87] The question should have been one of fact, not one of law, and the determination should have been made based on the particular facts of the case. The fact that the franchisor in *Chicken Delight* charged no separate initial fee or royalties

84. 15 U.S.C. § 1115(b)(7) (1970). See text accompanying note 109 *infra*.

85. 448 F.2d at 48 n.4.

86. 187 F. Supp. 545, 559 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961).

87. *See generally* Note, *Tying Arrangements and the Single Product Issue*, 31 OHIO S.L.J. 861 (1970).

for the use of its trademark, and that the trademark had never been marketed separately from the alleged "tied" products or, for that matter, the "tied" products separately from the trademark[88] were all factors which should have been considered in determining whether the franchise arrangement was properly classified as a tie-in in the first place.

By its restrictive view of the trademark as an item separate and distinct from every item not essential to quality control, the court in *Chicken Delight* allowed its determination of the two-product question to be governed by considerations more relevant to the question of whether the almost-assumed tie was *justified* as a means of quality control.[89] Whether a tie-in was present should have been determined by the court independently of considerations of possible justifications for the tie-in. There is no authority, either in the Lanham Act or elsewhere, that a trademark-licensing arrangement must be handled as a single complete transaction, disassociated from any other purchase requirements. If a trademark is part of a marketing system, and if within that system it cannot be disassociated from the other products in the system, then the trademark should not be considered a tying item. Even if the items in the system can be marketed separately, the law does not require that that possibility be the requirement.[90] The marketing system may be a result of legitimate business purposes and not of a desire to extend market power and suppress competition.[91] The process of determining whether two products exist and are tied for purposes of the tie-in laws is not mechanical. The defendant's motive and purpose, his past and contemporaneous methods of dealing in the allegedly separate products consituting the system under review, the nature of the alleged tying item, and the practices of his competitors are all relevant considerations. Contrary to the view implicit in *Chicken Delight*, these are considerations for the determination of whether a tie exists at all, not whether it is justified. And contrary to the action taken in *Chicken Delight*, these issues present questions of fact, the resolution of which is properly within the province of a jury rather than a judge.

As has been discussed previously, the existence of two distinct

88. *Cf.* Corwin v. Los Angeles Newspaper Serv. Bureau, 4 Cal. 3d 842, 858-59, 484 P.2d 953, 964, 94 Cal. Rptr. 785, 796 (1971). The case concerned an alleged tie-in, illegal under California's Cartwright Act, CAL. BUS. & PROF. CODE §§ 16720, 16726 (West 1964). Whether the seller ever marketed the products separately was viewed as one factor to consider in the *factual* determination of whether two products existed.

89. *See* 448 F.2d at 48-49.

90. See text accompanying note 86 *supra*.

91. *Id.*

products is the most basic prerequisite of a tying arrangement, for without two products the economic evil of market extension is not present, and there is no reason to apply the strict per se rule. Even if a court can find separate products, it still must find that the defendant developed power in one market which it then used to coerce purchases in another market. Simply stated, there must be one of the separate products which can be characterized as the tying item, the vehicle of the market extension. Since Chicken Delight has operated under the same system since its inception, it is impossible to say that it developed power in one market and then extended it into another. Two questions, then, were handled too blithely by the court in *Chicken Delight*: were the products involved in the Chicken Delight system as a matter of law necessarily distinct, and did Chicken Delight use a dominant product in that system to extend power in its market into other markets?

Exclusive Dealing

Even though the discussion above may indicate that the rules of law proscribing tying arrangements should not have been applied to the Chicken Delight arrangement, this would not necessarily mean, under the facts in *Chicken Delight*, that the franchise agreements were immune from attack under other antitrust regulations.[92] The franchisor in *Chicken Delight* required the franchisees to purchase certain of their requirements exclusively from one source. The antitrust tests regarding requirements contracts and exclusive dealing contracts could have been, and perhaps should have been applied to the franchise agreements to determine whether there were materially deleterious effects on competition. Unlike tying arrangements, exclusive dealing and requirements contracts do not involve the wielding of economic power outside of the seller's own market.[93] Since the economic evils which inhere in the typical tie-in—coercive control in other markets—are not necessarily found in a requirements or exclusive dealing arrangement, no rule of per se illegality has been developed.

Exclusive dealing or requirements contract arrangements may be

92. The courts have never taken the position that trademark licensors are immune from antitrust regulations. *See, e.g.*, Timken Roller Bearing Co. v. United States, 341 U.S. 593, 598-99 (1951). The Lanham Trade Mark Act itself penalizes the use of a trademark "to violate the antitrust laws of the United States." 15 U.S.C. § 1115(b)(7) (1970).

93. The argument can be made that exclusive dealing or requirements contracts also involve a form of tying arrangement in that the purchase of a certain amount of the seller's product is tied to purchase of the balance of the buyer's requirements. However, since there is no element of market extension, no such application of tie-in law has been made. See Petitioner's Brief for Certiorari at 12-13, Chicken Delight, Inc. v. Siegel, 40 U.S.L.W. 3415 (U.S. Feb. 28, 1972).

illegal under section 1 of the Sherman Act or under the more specific provision of section 3 of the Clayton Act.[94] There are two general tests of illegality for this type of contract: the "*quantitative* substantiality" test of *Standard Oil Co. v. United States*,[95] and the "*qualitative* substantiality" test of *Tampa Electric Co. v. Nashville Coal Co.*[96] Under the former and earlier decision, the threat of a substantial lessening of competition sufficient to make the contract illegal is deemed present when the arrangement forecloses enough competition so that a substantial portion of commerce is affected in the relevant market.[97] The "qualitative substantiality" test of *Tampa Electric* on the other hand takes into consideration more factors than simply the relative quantity of commerce affected. The relevant considerations for evaluating the quality of the restraints imposed by the contract are:

> [T]he relative strength of the parties, the proportionate volume of commerce involved in relation to the total volume of commerce in the relevant market area, and the probable immediate and future effects which pre-emption of that share of the market might have on effective competition.[98]

The Court in *Tampa Electric* did not purport to overrule the earlier quantitative test, nor did it make clear what weight was to be given to the various criteria for substantiality which it put forward. But whatever test is to be applied, whether quantitative, qualitative, or a hybrid test, the test to be applied is less onerous than the test of a "not insubstantial" amount of commerce in the tied market, which is the second requirement of the tie-in rule of per se illegality.[99] Thus,

94. See text accompanying notes 7-9 *supra*.

95. 337 U.S. 293 (1949). Standard Oil had exclusive supply contracts with 16% of retail outlets in the Western United States. Those dealers purchased $65 million worth of products under the contracts. These facts, coupled with the fact that most other suppliers in the area used the same arrangement, established a quantitatively substantial lessening of competition.

96. 365 U.S. 320 (1961). Tampa Electric Company agreed to purchase all of its coal requirements for a twenty-four-year period from Nashville Coal Company. Despite a large dollar volume involved, the Court found no qualitative substantiality. The reasons were that Nashville was only one of 700 suppliers in the market, the contract did not involve a substantial number of outlets, and the contract served legitimate business needs.

97. 337 U.S. at 314. In *Standard Oil* foreclosure of 6.7% of the relevant market met this test.

98. 365 U.S. at 329.

99. See text accompanying notes 30-31 *supra*. An amount of commerce which is not de minimis is enough for tie-in purposes. The *Tampa* decision involved a twenty-four-year coal supply contract which was clearly not de minimis, and still found the agreement to be legal. The widely differing amounts of restriction which are tolerated under exclusive dealing arrangements as opposed to tying arrangements suggest the importance for a court to determine whether there is need to apply the latter construction when the arrangement is susceptible of either description. Where there is "hardly any purpose beyond the suppression of competition" for the arrange-

the fact that the court applied the law relative to tie-ins, rather than the law of exclusive dealing arrangements in *Chicken Delight*, should such law have been applicable, was harmful error on the part of the court.[100]

The Market Power Issue

Even if it were assumed that the court in *Chicken Delight* correctly characterized the franchise agreement as a tying arrangement, the court's summary handling of the issue of market power is highly questionable. The lower court directed a verdict, finding market power as a matter of law. The appellate court affirmed.[101] The district court had justified a directed verdict on the issue of market power in the following manner:

> To enmesh the jury in the rubric of market power in light of the clear guidelines laid down in [*Northern Pacific, Loew's,* and *Fortner*] should be unnecessary. This Court clearly may and does rule upon this question as a matter of law.[102]

With the exception of patented and copyrighted tying items, for which a court will accord a presumption of market power,[103] the

ment, Standard Oil Co. v. United States, 337 U.S. 293, 305-06 (1949), or where a seller "wields his economic power" to "exploit" his position of strength and "expand his empire," Times-Picayune Publ. Co. v. United States, 345 U.S. 594, 611 (1953), the stricter standard should apply. Where none of these descriptions are accurate, no purpose is served by a mechanical application of the doctrine of per se illegality for tie-ins. See *Standard Oil, supra,* at 306-07.

Plaintiffs in Susser v. Carvel Corp., 332 F.2d 505 (2d Cir. 1964), *cert. denied,* 381 U.S. 125 (1965), argued that the franchise arrangement of defendant violated both tie-in and exclusive dealing standards. In regard to the latter issue, the court stated: "Instead of introducing evidence to establish the economic effects of the Carvel franchise structure, they merely protest that anti-competitive effects may be inferred solely from the existence of such a network of exclusive dealerships. But the whole tenor of Tampa Electric does not permit adherence to such a stringent standard of legality." *Id.* at 516.

See also Lessig v. Tidewater Oil Co., 327 F.2d 459, 468 (9th Cir.), *cert. denied,* 377 U.S. 993 (1964).

100. Plaintiffs stipulated in *Chicken Delight* that defendant's business in the "tied" markets at no time exceeded 1% of the relevant markets. Since the requirement of the per se rule regarding tie-ins required only more than a de minimis, the comparative volume figure was immaterial. Comparative volume would be extremely significant under either the quantitative or qualitative substantiality test for exclusive dealing arrangements.

101. "The District Court ruled, however, that Chicken Delight's unique registered trade-mark, in combination with its demonstrated power to impose a tie-in, established *as a matter of law* the existence of sufficient market power to bring the case within the Sherman Act. We agree." 488 F.2d at 49 (emphasis added).

102. 311 F. Supp. at 849. The court's logic here might be questioned: "clear guidelines" are presumably what prevent a jury from becoming "enmeshed" in "rubrics."

103. United States v. Loew's, Inc., 371 U.S. 38, 49-50 (1962).

guidelines for market power are not quite as clear as the court's language would suggest. This would appear to be particularly true in *Chicken Delight*, in light of the fact that a trademark license has never before been found to carry sufficient market power to bring such an arrangement within the rule of per se illegality. In fact, *Susser* is the only prior case to directly hold a trademark license to be a tying item, and the court there found no liability for the reason that no sufficient market power was demonstrated.[104] The appellate court, acknowledged *Susser* in a footnote, however, and suggested that the decision has been overruled by *Fortner*.[105]

To reach its conclusion on the presence of market power, the appellate court in *Chicken Delight* took the unprecedented position that the presumption of economic power which had been recognized in *Loew's*, where a copyrighted item was involved,[106] applied as well to trademarks:

> Just as the patent or copyright forecloses competitors from offering the distinctive product on the market, so the registered trademark presents a legal barrier against competition. . . . Accordingly we see no reason why the presumption that exists in the case of the patent and copyright does not equally apply to the trademark.[107]

Such a conclusion by the court presents conceptual as well as legal problems. In *Loew's* the copyrighted item presumptively carried market power because of a statutorily afforded monopoly. It was the product, and not its attendant copyright, which was used as the tying item. The arrangement in *Loew's* did not tie the copyright to the movie, but the copyrighted movie to other items. The court's reasoning, which equates copyrights and trademarks, would be sound if a system identified by a trademark were offered only on condition that the buyer also purchase some product not within the system. Of course, there was no such alleged tie in *Chicken Delight*.[108]

104. Susser v. Carvel Corp., 332 F.2d 505, 519 (2d Cir. 1964), *cert. denied*, 381 U.S. 125 (1965).

105. 488 F.2d at 50 n.7. *Susser* found no market power both by applying traditional standards and by rejecting the idea that a trademark carried a presumption of market power. *Chicken Delight's* assumption, expressed in a footnote, that *Fortner* affected *Susser's* determination on the nature of a trademark is too facile a dismissal of *Susser* and an unwarranted application of *Fortner*. See text accompanying notes 40-55 *supra* & note 107 & accompanying text *infra*.

106. See text accompanying notes 27-28 *supra*.

107. 488 F.2d at 50. This presumption was expressly rejected by a majority in *Susser*. 332 F.2d at 519. *Chicken Delight's* position that *Fortner* overruled *Susser* on this point is questionable in view of the fact that *Fortner* dealt with neither patents, copyrights, trademarks, nor directed verdicts finding market power as a matter of law.

108. Symbolically stated, *A*, a patent, copyright, or trademark, identifies *B*, a product or system. Loew's said that *AB* carries a presumption of market power

That there is an essential difference between patents and copyrights on the one hand, and trademarks on the other, is pointed up most clearly by the widely differing effectiveness of alleging violation of antitrust laws as a defense to a charge of patent or copyright infringement and trademark infringement. In the latter case, the defense is rarely successful. A recent decision illustrates the reasoning of the courts:

> [A] patent represents a grant of a limited monopoly that in most instances would, absent its legalization by Congress, constitute an unlawful restraint of trade . . . . A valid trademark, on the other hand, merely enables the owner to bar others from use of the mark, as distinguished from competitive manufacture and sale of identical goods bearing another mark, or even no mark at all, since the purpose of trademark enforcement is to avoid public confusion . . . .
>
> Thus, although misuse of a patent almost inevitably is accompanied by unlawful restraints, the opportunity for effective antitrust misuse of a trademark, as distinguished from collateral anti-competitive activities on the part of the manufacturer or seller of the goods bearing the mark, is so limited that it poses a far less serious threat to the economic health of the nation.[109]

Thus, the court in *Chicken Delight,* without any judicial support and in fact contrary to decided cases, treated patents, copyrights, and trademarks as equals for purposes of tie-in arrangements. Perhaps realizing the precariousness of its position, the court also attempted to justify its directed verdict regarding market power on the "clear guidelines" established in the prior tie-in cases. Regrettably, the clarity of the guidelines established in these prior cases do not lend support to the court's decision.

Both the district court and the Ninth Circuit in *Chicken Delight* cited *Fortner* as support for granting a directed verdict. Apparently disregarded by the courts is the fact that the Court in *Fortner* reversed a directed verdict for the defendants, and remanded the case so that a jury could determine the issues. Indeed, the Court went out of its way to discuss the general inapplicability of directed verdicts and summary judgments in complex antitrust cases.[110]

Fortner did contain dictum to the effect that market power may exist when the seller has the power to "impose other burdensome terms such as a tie-in, with respect to any appreciable number of

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when its purchase is tied to another product, C. Chicken Delight argues that *A,* when it is a trademark, carries a presumption when its purchase is "tied" to *B.* See the discussion of the single product issue at text accompanying notes 73-91 *supra.*

109. Zeiss Stiftung v. V.E.B. Zeiss, Jena, Inc., 298 F. Supp. 1309, 1314 (S.D.N.Y. 1969), *aff'd as modified on other grounds,* 433 F.2d 686 (2d Cir. 1970).

110. See note 55 & accompanying text *supra.*

buyers within the market."[111] However, the *Fortner* dictum in no way justifies a directed verdict under the facts of *Chicken Delight.* In the first place, it is questionable to accord such weight to dictum. Secondly, the Court was not providing a determinative test, but rather a "proper focus of concern."[112] And thirdly, the *existence* of a tying arrangement with an appreciable number of buyers is not the equivalent of the *imposition* of a tying arrangement on an appreciable number of buyers. Since the element of coercion is central to the rationale of tie-in law, finding liability without that element appears to go beyond the purpose of the proscription.

In addition, the error in the court's premise that the guidelines for market power are clear is reflected in the subsequent litigation in *Fortner* after remand by the Supreme Court. On remand, the district court, which had first directed a verdict for the defendant, directed a verdict for the plaintiff![113] On appeal, the Sixth Circuit Court of Appeals reversed and again remanded the case to the district court:

> In Advance Business Systems & Supplies Co. v. SCM Corporation . . . the Court, as the plaintiff argues, interpreted Fortner as holding that ". . . the 'sufficient economic power' test of per se illegality is satisfied when it appears that the seller has the power to 'impose other burdensome terms such as a tie-in with respect to any appreciable number of buyers within the market.'" Plaintiff in its brief relies upon this interpretation and insists that the directed verdict in its favor was justified on the basis of this interpretation of *Fortner* by the Fourth Circuit. As we read the majority opinion in *Fortner*, the holding was that a tying arrangement achieves an unlawful restraint when "the seller can exert some power over some of the buyers in the market." *The majority opinion did not hold that the acceptance of a tie-in by customers without more is proof of economic power. If the majority had intended to indicate that acceptance of a tie-in by an appreciable number of customers is sufficient proof of the requisite economic power, it would have been sufficient for Mr. Justice Black to have said so . . . .*[114]

The Ninth Circuit in *Chicken Delight*, the Second Circuit in *Susser*, the Fourth Circuit in *Advanced Business Systems*, and the Sixth Circuit in *Fortner* appear to be at odds as to the requirement for determining market power. Whatever "clear guidelines" may exist on the subject of market power, such guidelines would not appear to indicate that the tying arrangement in *Chicken Delight*—a question-

111. 394 U.S. 495, 504 (1969). The statement was dictum because the case did not involve "an appreciable number of buyers."

112. *Id.*

113. Judgment entered Nov. 23, 1970 (W.D. Ky.).

114. 452 F.2d 1065, 1103 (6th Cir. 1971), *cert. denied*, 40 U.S.L.W. 3542 (U.S. May 15, 1972), *quoting* Advance Business Systems & Supplies Co. v. SCM Corp., 415 F.2d 55, 68 (4th Cir. 1969), *cert. denied*, 397 U.S. 920 (1970).

able finding in itself—demonstrates sufficient market power merely by its existence. Perhaps, the jury should have been allowed to determine whether there was sufficient power to coerce, whether there was in fact coercion, and whether such coercion was wielded with the motive of market extension.

Franchising and the Law of Tie-ins

Regardless of the propriety of the courts' interpretation of various tie-in standards in *Chicken Delight,* an important policy issue still remains—the desirability of imposing the law of tie-ins on the trademark-licensing form of franchising. The franchise industry is clearly an important and rapidly expanding force in the national economy.[115] Further, the industry is just as clearly susceptible to many of the same trade regulation problems as are other industries, most notably misrepresentation by the franchisor in the marketing of franchises,[116] and possible anticompetitive practices in controlling franchisees.[117]

The issue which should be deemed central to the *Chicken Delight* litigation is whether there are sufficently compelling reasons to deal with purchasing restrictions in franchise agreements under the law of tie-ins rather than the law of exclusive dealing arrangements. The practical difference, as has been discussed above, is the amount of proof as to actual or potential anticompetitive effects which will be required under the two bodies of law. A dollar volume in "tied" goods which is more than de minimis is sufficient to meet the second half of the per se rule of illegality for tie-ins. However, this same volume might at the same time represent only a small percentage—either quantitatively or qualitatively—of the business in the relevant market and would thus be deemed of no "significant substantiality" under the exclusive dealing rule.[118] The reason for the difference in the quantum of proof required under the two bodies of law is that exclusive dealing arrangements are not generally deemed to be inherently bad, as are tying arrangements, probably because they do not

115. Estimates on the number of franchise outlets range as high as 700,000, the dollar volume as high as $125 billion, and the percentage of existing franchises not in business in 1954 as high as 90%. FEDERAL TRADE COMM'N, BACKGROUND PAPER, PROPOSED TRADE REGULATION RULE: DISCLOSURE REQUIREMENTS AND PROHIBITIONS CONCERNING FRANCHISING 5 (1971) [hereinafter cited as FTC BACKGROUND PAPER].

116. This appears to be the area of greatest concern to the FTC. Such practices as hidden costs, inflated claims, inactive franchisors, and unreasonable termination provisions are suspect. *See generally* FTC BACKGROUND PAPER, *supra* note 115.

117. In an FTC discussion of buying restrictions in franchise agreements, the analysis was commenced by reference to *Standard Oil* and *Tampa Electric,* the leading exclusive dealing decisions. FEDERAL TRADE COMM'N, REPORT OF AD HOC COMMITTEE ON FRANCHISING 14 (June 2, 1969).

118. See text accompanying notes 92-100 *supra.*

involve as their primary purpose the transference of market power from one market to another. Exclusive dealing arrangements often represent quite reasonable business aims which serve the economy.[119] Such dealing arrangements should be curbed, therefore, only when the threat to competition is substantial. Even though the franchise arrangements in *Chicken Delight* appear to represent such exclusive dealing arrangements, the court applied the stricter law of tie-ins, and found the franchise agreements violative of antitrust law. The court appears to have completely disregarded the impact of the decision on the individuals who may in the end be most intimately affected—the franchisees.

Franchising arrangements offer many advantages to the franchisee, among which is the opportunity for an individual to beome an independent businessman, operating a business which has an immediate reputation. While this aspect of franchising has been viewed as less than a completely accurate recognition of the balance of power between franchisor and franchisee, it has not gone without judicial recognition:

> The franchise method of operation has the advantage, from the standpoint of our American system of competitive economy, of enabling numerous groups of individuals with small capital to become entrepreneurs. . . . If our economy had not developed that system of operation, these individuals would have turned out to have been merely employees.[120]

It may well be that the franchise arrangements in *Chicken Delight*, which involved no initial license fee—which sometimes run from $50,000-$100,000 in the fast-food industry[121]—allowed an individual to become an instant businessman more easily than other types of franchise arrangements. Of course, it is reasonable to assume that the "no initial cost" arrangement of Chicken Delight franchises is now a thing of the past.

A franchise agreement necessarily involves some amount of control which might arguably be characterized as tying. A trademark owner, who utilizes the trademark as the basis for a franchise agreement, but who does nothing to maintain the distinctive nature of the trademark may be deemed by the courts to have abandoned it.[122] In order to protect his trademark, therefore, he may require the franchisee to purchase certain items deemed essential to the maintenance of a

119. See text accompanying note 125 *infra*.

120. Susser v. Carvel Corp., 206 F. Supp. 636, 640 (S.D.N.Y. 1962).

121. FTC BACKGROUND PAPER, *supra* note 115, at 5.

122. *See* 15 U.S.C. § 1058 (1970). *See generally* Rudnick, *The Franchisor's Dilemma: Can He Satisfy the Legal and Commercial Requirements of a Trademark Licensing System Without Exposing Himself to Other Legal Risks*, 56 TRADEMARK REP. 621 (1966).

uniform standard of quality; he may also, by some accounting procedure, require participation by the franchisee in the advertising of the trademark; he may require use of specified building designs, and so on. The need for quality control of the product produced by the franchisee is particularly crucial in the fast-food business, where a uniform taste and quality is essential to the value of the trademark as an identifying symbol. The required purchase of cooking equipment and spice mixes, when that is a reasonable device for quality control,[123] should be restricted by the courts only when the effect on competition is or may be substantially adverse, and not simply when the dollar volume in the goods is more than de minimis. There is simply no compelling reason to apply the law of tie-ins to such franchise arrangements when the goal of free competition can be served as well through the use of exclusive dealing guidelines. To expose franchisors to litigation[124] merely for requiring purchases aimed at protecting product integrity, and which pose no substantial threat to competition, and further to force the franchisor to prove that there was no practical alternative to the arrangements with his franchisees, is to place an unfair burden on the industry.

In *Standard Oil* the court established the test for determining the illegality of exclusive dealing arrangements, and in doing so pointed out potential benefits to society of such arrangements:

> Requirements contracts, on the other hand, may well be of economic advantage to buyers as well as sellers, and thus indirectly of advantage to the consuming public. In the case of the buyer, they may assure supply, afford protection against rises in price, enable long-term planning on the basis of known costs, and obviate the expense and risk of storage in the quantity necessary for a commodity having a fluctuating demand. From the seller's point of view, requirements contracts may make possible the substantial reduction of selling expenses, give protection against price fluctuations, and—of particular advantage to a newcomer in the field to whom it is important to know what capital expenditures are justified—offer the possibility of a predictable market. . . . *Since these advantages of requirements contracts may often be sufficient to account for their use, the coverage by such contracts of a sub-*

123. The court in *Chicken Delight* instructed the jury that the tie-in justification of quality control would apply only if there was no other practical way to reach that end. Other methods may be "practical" while being unduly burdensome. It is arguable that more leeway should be provided when food is involved. *Cf.* Susser v. Carvel Corp., 332 F.2d 505, 520 (2d Cir. 1964), *cert. denied,* 381 U.S. 125 (1965). This would recognize the fact that a trademark is of value only when it elicits a favorable impression of quality. *See* Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 205 (1942).

124. The threat of a wave of litigation is not merely speculative. Chicken Delight, in its Supreme Court brief, *supra* note 93, at App. D, presented a list of 39 pending cases with issues common to those in *Chicken Delight.*

> *stantial amount of business affords a weaker basis for the inference that competition may be lessened than would similar coverage by tying clauses.* . . . And so we could not dispose of this case merely by citing International Salt Co. v. United States [and its rule of per se illegality for tying arrangements].[125]

The potential advantages discussed in *Standard Oil* have particular application to the franchising arrangement in *Chicken Delight.* In addition, the franchising arrangements provided the further advantage to the franchisee of a lower initial cost for entry into the market, and the further advantages to the franchisor of a convenient method for quality control, particularly essential when the product is food,[126] and for realization of the value of the trademark.

To condemn any change in the law by judicial decision as "judicial legislating" is unreasonable. But such criticism appears fully justified when a decision has the potential effect of decreeing the one legal method by which a franchisor can market his distinctive trademark and its identified product. An inherent risk in a result such as *Chicken Delight's* is that it might lead to company-owned outlets rather than independent businesses. Such a result would entail large, vertically-integrated companies and would ultimately result in a net loss for the interests of free competition. Justice Douglas recognized this potential danger in his dissent in *Standard Oil:*

> [W]e can expect that the oil companies will move in to supplant [the independent stations] with their own stations. There will still be competition between the oil companies. But there will be a tragic loss to the nation. The small, independent businessman will be supplanted by clerks. . . . The requirements contract which is displaced is relatively innocuous as compared with the virulent growth of monopoly power which the Court encourages. . . . It helps remake America in the image of the cartels.[127]

Conclusion

The decision in *Chicken Delight* will have important effects on the franchise industry. It is possible that among these effects could be a shift toward wholly owned outlets for the product. The decision may also place such impossible burdens on a trademark licensor who will now be required to utilize continuous on-site inspections in order to maintain quality control that the public interest in the descriptive value of trademarks will be harmed.

The interpretation of *Fortner* by the court in *Chicken Delight*

125. 337 U.S. 293, 306-07 (1949).

126. *Cf.* Susser v. Carvel Corp., 332 F.2d 505, 520 (2d Cir. 1964).

127. 337 U.S. at 320-21. *See* Robin, *Current Legal Developments in Franchising,* 60 TRADEMARK REP. 212, 218 (1970).

would, if adopted, effectively remove tie-in cases from juries, and almost entirely remove the element of coercion from consideration in antitrust cases involving tie-ins. A body of law which has been developed to prevent the "wielding of monopolistic leverage" and the "suppression of competition"—tie-in doctrines—would be changed to an automatic declaration of illegality of any package sale which conceptually can be viewed as consisting of more than one product, regardless of the market leverage or the suppression of competition involved.

As to the propriety of applying the law of tie-ins to the instant facts, as to the court's interpretation of market power in the rule of per se illegality, and as to the court's view of the proper form of business operations in the franchise industry, the reasoning in *Chicken Delight* deserves reconsideration

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